INXUBA YETHEMBA LOCAL MUNICIPALITY
(Registration number EC131)

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

General Information

Legal form of entity	EC131 - Local Municipality - The municipality's operations are governed by the Municipal Finance Management Act 56 of 2003, Municipal Structures Act 117 of 1998, Municipal Systems Act 32 of 2000; and various other acts and regulations.
Nature of business and principal activities	Inxuba Yethemba Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. The municipality performs the functions as set out in the Constitution. This in effect means that the municipality provides services like electricity and refuse removal to the community. Inxuba Yethemba Local Municipality also serves as an agent to the Provincial Department of Transport.
Jurisdiction	Cradock and Middelburg
Executive committee	
Executive Mayor	ZR Shweni
Speaker	MM Nortjie
Chief Whip	T Bobo
Mayoral Committee	L Davids
	SV Masawe
	G Mgeza
Councillors	V Bene (MPAC Chair)
	M Desha
	C Diamond
	MH Featherstonehaugh
	S Goniwe
	S Holster
	BL Lawens
	R Lottering
	ZA Mankamani
	TM Msali
	CA Sammy
	HB Vorster
Grading of local authority	Three (3)
Registered office	1 J A Calata Street Cradock 5880
Business and postal address	1 J A Calata Street Cradock 5880
Bankers	First National Bank
Auditors	Auditor - General of South Africa
Attorneys	Metcalf & Kie Attorneys Minnaar & De Kock Attorneys Nolte and Smit Van Heerden Incorporated Labuschagne van der Walt Incorporated

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The reports and statements set out below comprise the annual financial statements presented to the municipal council:

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SARS	South African Revenue Service
VAT	Value-Added Tax

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice ("GRAP") including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 5 to 73, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

Mr XW Msweli
Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality operates in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 72 742 340 (2018: deficit R 50 647 087).

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus / (deficit) of R 1 098 702 639 and that the municipality's total liabilities exceed its assets by R 1 098 702 639.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality from national and provincial government.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that would require disclosure in the annual financial statements.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts of the municipality.

5. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices ("GRAP") issued by the Accounting Standards Board as the prescribed framework by National Treasury, in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

Statement of Financial Position as at 30 June 2019

	Notes	2019 R	2018 Restated* R
ASSETS			
Current Assets			
Inventories	3	594 176	565 207
Receivables from exchange transactions	4	957 471	2 065 617
Receivables from non-exchange transactions	5	11 323 330	11 901 186
VAT receivable	6	8 370 326	1 740 904
Consumer debtors from exchange transactions	7	24 545 978	16 872 038
Cash and cash equivalents	8	7 477 250	1 850 355
		53 268 531	**34 995 307**
Non-Current Assets			
Investment property	9	37 919 000	39 520 000
Property, plant and equipment	10	1 253 161 498	1 290 432 017
Heritage assets	11	2 225 000	2 225 000
		1 293 305 498	**1 332 177 017**
Total Assets		**1 346 574 029**	**1 367 172 324**
LIABILITIES			
Current Liabilities			
Payables from exchange transactions	12	183 356 058	126 815 187
Payables from non-exchange transactions	13	-	3 752 433
Consumer deposits from exchange transactions	14	1 356 042	1 403 105
Unspent conditional grants and receipts	15	1 433 744	1 700 025
		186 145 844	**133 670 750**
Non-Current Liabilities			
Employee benefit obligation	16	36 674 000	38 187 000
Provisions	17	25 051 546	23 869 595
		61 725 546	**62 056 595**
Total Liabilities		**247 871 390**	**195 727 345**
Net Assets			
Accumulated surplus		1 098 702 639	1 171 444 979
Total Net Assets		**1 098 702 639**	**1 171 444 979**
Total Net Assets and Liabilities		**1 346 574 029**	**1 367 172 324**

* See Note 55

Statement of Financial Performance

	Notes	2019 R	2018 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	18	115 384 043	108 897 902
Rental of facilities and equipment	19	2 067 185	2 074 914
Agency services	20	2 105 492	4 553 386
Sundry fees and income	21	1 537 769	7 638 745
Interest received	22	10 996 553	12 665 835
Gain on disposal of assets and liabilities	23	-	299 218
Fair value adjustments	24	-	360 000
Actuarial gains	25	3 987 000	11 419 670
Total revenue from exchange transactions		**136 078 042**	**147 909 670**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	42 888 047	40 293 224
Transfer revenue			
Government grants & subsidies	27	78 941 310	77 523 693
Fines	28	140 208	232 258
Total revenue from non-exchange transactions		**121 969 565**	**118 049 175**
Total revenue	29	**258 047 607**	**265 958 845**
Expenditure			
Employee related costs	30	(88 402 432)	(81 964 835)
Remuneration of councillors	31	(8 113 776)	(7 925 957)
Depreciation	32	(62 404 783)	(62 893 490)
Impairment loss	33	(23 680 165)	(2 151 025)
Finance costs	34	(14 659 395)	(14 560 692)
Lease rentals on operating lease	35	(881 655)	(1 277 566)
Bad debts written off	36	-	(12 938 815)
Repairs and maintenance	37	(8 205 840)	(4 639 178)
Bulk purchases	38	(68 460 933)	(64 444 219)
Contracted services	39	(15 353 890)	(18 541 437)
Loss on disposal of assets and liabilities	23	(1 446 066)	-
Fair value adjustments	24	(101 000)	-
General expenses	40	(39 080 012)	(45 268 718)
Total expenditure		**(330 789 947)**	**(316 605 932)**
Deficit for the year		**(72 742 340)**	**(50 647 087)**

* See Note 55

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	1 224 104 767	1 224 104 767
Adjustments		
Correction of errors	(2 012 701)	(2 012 701)
Balance at 01 July 2017	**1 222 092 066**	**1 222 092 066**
Changes in net assets		
Deficit for the year	(50 647 087)	(50 647 087)
Total changes	(50 647 087)	(50 647 087)
Balance at 30 June 2018	**1 171 444 979**	**1 171 444 979**
Changes in net assets		
Surplus / (deficit) for the year	(72 742 340)	(72 742 340)
Total changes	(72 742 340)	(72 742 340)
Balance at 30 June 2019	**1 098 702 639**	**1 098 702 639**

* See Note 55

Cash Flow Statement

	Notes	2019 R	2018 Restated* R
Cash flows from operating activities			
Receipts			
Property rates and grants		110 394 193	99 536 706
Sale of goods and services		91 652 380	110 325 806
Interest revenue	22	10 996 553	12 960 345
Other receipts		6 010 001	12 603 579
		219 053 127	235 426 436
Payments			
Employee costs		(90 796 459)	(81 154 844)
Finance costs		(8 957 010)	(7 789 800)
Payments to suppliers		(86 077 082)	(111 403 956)
		(185 830 551)	(200 348 600)
Net cash flows from operating activities	42	**33 222 576**	**35 077 836**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(29 235 776)	(35 707 696)
Proceeds from sale of property, plant and equipment	10	1 640 095	356 942
Net cash flows from investing activities		**(27 595 681)**	**(35 350 754)**
Net increase / (decrease) in cash and cash equivalents		**5 626 895**	**(272 918)**
Cash and cash equivalents at the beginning of the year		1 850 355	2 123 273
Cash and cash equivalents at the end of the year	8	**7 477 250**	**1 850 355**

* See Note 55

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	174 787 478	675 150	**175 462 628**	110 514 212	**(64 948 416)**	N1
Rental of facilities and equipment	2 811 473	1 140 673	**3 952 146**	1 761 397	**(2 190 749)**	N1
Agency services	5 265 000	(465 731)	**4 799 269**	2 105 492	**(2 693 777)**	N1
Interest revenue	6 400 483	7 873 397	**14 273 880**	10 834 987	**(3 438 893)**	N2
Sundry fees and income	3 624 974	(787 652)	**2 837 322**	1 537 769	**(1 299 553)**	Ins
Gains on disposal of assets	4 500 000	-	**4 500 000**	-	**(4 500 000)**	N3
Total revenue from exchange transactions	**197 389 408**	**8 435 837**	**205 825 245**	**126 753 857**	**(79 071 388)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	42 525 876	16 472	**42 542 348**	42 865 345	**322 997**	Ins
Property rates - penalties imposed and collection charges	4 212 000	(731 138)	**3 480 862**	-	**(3 480 862)**	N1
Transfer revenue						
Government grants & subsidies	46 927 240	(4 894 240)	**42 033 000**	45 160 555	**3 127 555**	N4
Fines	3 500 000	(3 255 200)	**244 800**	140 208	**(104 592)**	Ins
Total revenue from non-exchange transactions	**97 165 116**	**(8 864 106)**	**88 301 010**	**88 166 108**	**(134 902)**	
Total revenue	**294 554 524**	**(428 269)**	**294 126 255**	**214 919 965**	**(79 206 290)**	
Expenditure						
Employee related costs	(86 885 000)	(3 115 000)	**(90 000 000)**	(88 402 432)	**1 597 568**	Ins
Remuneration of councillors	(6 949 800)	(250 200)	**(7 200 000)**	(8 113 776)	**(913 776)**	Ins
Depreciation and amortisation	(60 385 602)	-	**(60 385 602)**	(62 404 783)	**(2 019 181)**	Ins
Impairment loss	-	-	**-**	(23 680 165)	**(23 680 165)**	N5
Finance costs	(4 000 000)	-	**(4 000 000)**	(15 267 985)	**(11 267 985)**	N6
Lease rentals on operating lease	-	-	**-**	(881 655)	**(881 655)**	Ins
Bad debts written off	(4 200 000)	1 767 497	**(2 432 503)**	(4 374 031)	**(1 941 528)**	N7
Bulk purchases	(65 000 000)	(15 000 000)	**(80 000 000)**	(68 460 933)	**11 539 067**	N8
Contracted services	(8 424 000)	(5 371 000)	**(13 795 000)**	(15 353 890)	**(1 558 890)**	N9
Loss on disposal of assets	-	-	**-**	(1 446 066)	**(1 446 066)**	N10
General expenses	(19 394 878)	(3 908 095)	**(23 302 973)**	(38 794 593)	**(15 491 620)**	N11
Repairs and maintenance	(22 238 592)	16 238 592	**(6 000 000)**	(6 248 857)	**(248 857)**	Ins
Total expenditure	**(277 477 872)**	**(9 638 206)**	**(287 116 078)**	**(333 429 166)**	**(46 313 088)**	
Operating surplus / (deficit)	**17 076 652**	**(10 066 475)**	**7 010 177**	**(118 509 201)**	**(125 519 378)**	
Fair value adjustments	-	-	**-**	(101 000)	**(101 000)**	Ins
Actuarial gains/losses	-	-	**-**	3 987 000	**3 987 000**	N12
Deficit for the year	**17 076 652**	**(10 066 475)**	**7 010 177**	**(114 623 201)**	**(121 633 378)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

N1: The budget for revenue from service delivery was overstated.

N2: The budget anticipated a reduction in the debtors book resulting in a reduction in interest revenue. This reduction did not transpire in the current financial year.

N3: There was a delay on the appointment of the auctioneers and therefore there were no disposals during the current financial year.

N4: Budgeted transfer revenue was understated.

N5: The budget for impairments was understated.

N6: The budet for finance cost on creditors' arrear accounts were understated.

N7: The provision for debtors increased due to the ageing of the debtors book.

N8: The budget amount for bulk purchases were understated.

N9: The budget was understated for the commitments in place.

N10: The budget did not take into account loss on disposal of assets.

N11: The benefit of cost containment measures was not realised in the current financial year.

N12: The budget did not anticipate actuarial gains or losses.

Ins: Variance considered not to be material for the municipality. Refer for to accounting policy note 1.22 for more information.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice ("GRAP"), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003) ("MFMA").

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgments and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

Receivables from exchange and non-exchange transactions

The municipality assesses its financial assets for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

The municipality considers the following events or circumstances as possible indications that an impairment may have occurred:

- Property, plant and equipment that are damaged, where an asset's market value has declined significantly more than would be expected as a result of the passage of time, obsolescence, assets that become idle, plans to dispose of an asset before the previously expected date, plans to discontinue or restructure the operation to which the asset belongs, a decision to halt the construction of the asset before it is complete or in a usable condition or where internal reporting indicates that the economic performance of an asset is, or will be worse than expected.
- Damaged or derelict buildings and investment properties.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to its present value where the effect is material.

1.2 Significant judgments and sources of estimation uncertainty (continued)

Provision for rehabilitation of landfill sites

The municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost.

The uncertainties and assumptions attached to this provision are listed as follows:

- The landfill closure designs are based on current day legislation (Minimum Requirements for Waste Disposal by Landfill, Second Edition 1998) and current permits. Should the Minister require for the sites to be relicensed or brought in line with new legislation, the closure requirements may be affected which may in turn affect the costing analysis.
- It is assumed that clean sand and clay is available locally (nearby/alongside/within) to the site and no importation (long-distance haulage) of materials is required. Material on or close to site is sufficient for closure.
- It is assumed that the general public have not requested a specific final shape or end use for the landfill sites.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost / (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 16.

Useful lives of property, plant and equipment

The municipality depreciates its property, plant and equipment over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgemental as to whether the assets will be sold or used to the end of their useful lives and in what condition they will be at that time.

At each reporting date management assesses the assets for any indication that the municipality's expectations about the residual values and the useful lives of assets have changed since the preceding reporting date. If any such indication exists, the municipality shall revise the expected useful life and/or residual value accordingly.

Determination of deemed cost for property, plant and equipment and heritage assets

In the absence of an invoice to support the purchase of an asset, those assets have been brought into account using the deemed cost. Deemed costs were determined by obtaining the market value of the asset in the current financial year and adjusting the market value using CPI to establish the current replacement cost at measurement date, namely 1 July 2018. The current replacement cost was adjusted to take into account the condition and age of the asset at measurement date using the depreciated replacement cost method. For heritage assets, current replacement cost was used and adjusted (if required) after an assessment for impairment in terms of the heritage assets accounting policy.

Accounting Policies

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services, or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Accounting Policies

1.4 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	20 to 30 years
Landfill sites	30 years
Plant and machinery	5 to 10 years
Furniture and fittings	5 to 7 years
Motor vehicles	7 to 10 years
Office equipment	5 to 7 years
Computer equipment	5 to 7 years
Infrastructure	4 to 80 years
Community	10 to 30 years

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

1.4 Property, plant and equipment (continued)

In assessing whether there is any indication that the expected useful life of an asset has changed, the municipality considers the following indicators:

- The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.
- The use of the asset has changed, because of the following:
  - The municipality has changed the manner in which the asset is used.
  - The municipality has changed the utilisation rate of the asset.
  - The municipality has made a decision to dispose of the asset in a future reporting period(s) and that this decision will change the expected period over which the asset will be used.
  - Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.
  - Legal or similar limits placed on the use of the asset have changed.
  - The asset was idle or retired from use during the reporting period.
- The asset is approaching the end of its previously expected useful life.
- Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.
- Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.
- There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- The asset is assessed as being impaired.
- Other indicators which may indicate a change in useful life or residual value of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The municipality capitalise project expenditure as work in progress as and when the expenditure occurs. Upon completion of the project, the project assets are componentised and transferred to the relevant category of property, plant and equipment, investment property or heritage assets.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 37).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Accounting Policies

1.5 Site restoration and dismantling cost (continued)

As the related asset is measured, using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item

Accounting Policies

1.7 Financial instruments

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Consumer debtors from exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition at amortised cost.

All financial assets measured at amortised cost are subject to an impairment review.

Gains and losses

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. The municipality first assesses individually significant debtors for impairment and will then use a portfolio approach on the remaining debtors.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.7 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit.

Presentation

Gains or losses relating to a financial instrument or a component that is a financial liability is recognised as revenue or an expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Accounting Policies

1.8 Leases (continued)

Operating leases - The municipality as the lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in the statement of financial performance. The difference between the amounts recognised as income and the contractual receipts are recognised as an operating lease asset or liability.

Operating leases - The municipality as the lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Refer to note 1.11 for the accounting treatment of non-cash generating assets.

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset. The recoverable amount is considered to be the higher of the value in use and the fair value less costs to sell.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

1.10 Impairment of cash-generating assets (continued)

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Refer to note 1.10 for the accounting treatment of cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset. The recoverable service amount is considered to be the higher of the non-cash generating asset's value in use and the fair value less costs to sell.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets' remaining service potential.

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an "overdesigned" or "overcapacity" asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Accounting Policies

1.11 Impairment of non-cash generating assets (continued)

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

Accounting Policies

1.12 Employee benefits (continued)

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Long-service award

The municipality has an obligation to provide long-service award benefits to all of its employees. According to the rules of the long-service award scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

Accounting Policies

1.12 Employee benefits (continued)

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality values the present obligation using a discount rate that reflects the time value of money. This is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Accounting Policies

1.13 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. Refer to note 43 for commitments the municipality are required to honour.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Interest, agency fees charged on agency services provided and rental of facilities and equipment

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Agency fees charged on agency services provided, is recognised on a monthly basis once the income collected, on behalf of agents, has been quantified. The agency fees income is recognised in terms of the agency agreement.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

1.16 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality or third party without directly giving approximately equal value in exchange, or gives value to another municipality or third party without directly receiving approximately equal value in exchange.

Recognition

Revenue from non-exchange transactions is generally recognised to the extent that the the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Government Grants and receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Once the conditions are met, revenue is recognised and the liability is reduced. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the statement of financial performance in the period in which they become receivable.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Fines

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue due to the municipality from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

1.17 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year and / or restated for prior period adjustments.

1.19 Unauthorised expenditure

Unauthorised expenditure includes:
- Overspending of the total amount appropriated in the municipality's approved budget.
- Overspending of the total amount appropriated for a vote in the approved budget.
- Expenditure from a vote unrelated to the department or functional area covered by the vote.
- Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose.
- Spending of an allocation otherwise than in accordance with the conditions of the allocation.
- A grant by the municipality otherwise than in accordance with this Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure incurred in contravention of or that is not in accordance with the:
(a) MFMA;
(b) Municipal Systems Act (Act No. 32 of 2000);
(c) Public Office-Bearers Act (Act No. 20 of 1998); or
(d) A requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy; and

which has not been condoned in terms of that Act, policy or by-law.

Accounting Policies

1.21 Irregular expenditure (continued)

MFMA Circular 68 requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements.

The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Budget information

The approved budget is prepared on a accrual basis and relates solely to the municipality. The approved budget covers the fiscal period from 1 July 2018 to 30 June 2019.

The municipality considers budget variances greater than 10% and R 1 229 620 (approximately 0.5% of revenue) as material.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

1.23 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Related parties include key management personnel such as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager and close family members of key management personnel.

Related party transactions during the year and balances at reporting date is disclosed in note 53.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.25 Value-Added Tax

The municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15 (2)(a) of the Value-Added Tax Act No 89 of 1991.

Revenue, expenses and assets are recognised net of the amount of Value Added Tax ("VAT") except:
- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is separately disclosed in the statement of financial position.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term “specialist military equipment” in IPSAS 17 was replaced with the term “weapon systems” and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB’s Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB’s recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB’s Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- To determining whether an asset is cash generating or not. The standard now provides more guidance and indicated that for an asset to be cash generating the expected cash inflows are significantly higher than the cost of the asset.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB’s Improvements to IPSASs 2014 issued in January 2015.

2. New standards and interpretations (continued)

The most significant changes to the Standard are:
- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards. The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:
- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

Impact is not expected to be material but will result in additional disclosure.

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

Impact is not expected to be material but will result in additional disclosure.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB’s Amendments to IAS 1.

2. New standards and interpretations (continued)

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:
- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2021 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2021.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2. New standards and interpretations (continued)

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in paragraph 10(a) of GRAP 20; and
  - a person identified in paragraph 10(a)(i) of GRAP 20 has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence.

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management.

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2019, however the related party accounting policy of the municipality is already aligned with these amendments.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

2. New standards and interpretations (continued)

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

The adoption of this interpretation is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

The adoption of this interpretation is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Notes to the Annual Financial Statements

	2019 R	2018 R

3. Inventories

Stores (consumables and materials)	594 176	565 207
Inventory written off during the year	797	88 457
Inventories recognised as an expense during the year (excluding write-offs)	995 098	536 015

4. Receivables from exchange transactions

Gross rental debtors	5 202 215	6 283 706
Less: Allowance for impairment	(4 374 031)	(4 344 872)
Net rental debtors	828 184	1 938 834
Sundry debtors	129 287	126 783
	957 471	**2 065 617**

Rental debtors and sundry debtors are unsecured. Rental debtors from exchange transactions are billed monthly. No interest is charged on rental debtor accounts until the end of the following month. Thereafter interest is charged at a rate determined by Council on the outstanding balance.

The municipality did not pledge any of its receivables from exchange transactions as security for borrowing purposes.

In determining the recoverability of receivables from exchange transactions, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers in the Cradock and Middelburg geographical area. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

The ageing of receivables from exchange transactions is as follows:

Current (0 - 30 days)	341 613	403 394
31 - 60 days	36 806	51 091
61 - 90 days	34 234	55 616
91 - 120 days	38 973	51 035
121 - 150 days	15 967	31 968
More than 151 days	489 878	1 472 513
	957 471	**2 065 617**

Revenue from exchange transactions past due but not impaired

At 30 June 2019, R 615 858 (2018: R 1 662 223) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	36 806	51 091
2 months past due	34 234	55 616
3 months past due	38 973	51 035
4 months past due	15 967	31 968
More than 4 months past due	489 878	1 472 513
	615 858	**1 662 223**

	2019 R	2018 R

4. Receivables from exchange transactions (continued)

Revenue from exchange transactions impaired

As of 30 June 2019, receivables from exchange transactions of R 4 374 031 (2018: R 4 344 872) were impaired and provided for. The ageing of these receivables is as follows:

	2019 R	2018 R
0 to 3 months	72 536	140 392
3 to 6 months	130 313	102 565
6 to 9 months	82 439	158 359
More than 9 months	4 088 743	3 943 556
	4 374 031	**4 344 872**

Reconciliation of the allowance for impairment of receivables from exchange transactions

	2019 R	2018 R
Opening balance	4 344 872	5 132 840
Provision for impairment	29 159	(787 968)
Balance at the end of the year	**4 374 031**	**4 344 872**

5. Receivables from non-exchange transactions

	2019 R	2018 R
Gross balances		
Rates	79 181 409	71 624 751
Less: Allowance for impairment		
Rates	(67 858 079)	(59 723 565)
Net balance		
Rates	11 323 330	11 901 186

The ageing of receivables from non-exchange transactions is as follows:

	2019 R	2018 R
Rates		
Current (0 - 30 days)	3 713 230	2 984 161
31 - 60 days	167 456	148 579
61 - 90 days	149 621	142 098
91 - 120 days	158 758	110 918
121 - 150 days	31 950	167 010
More than 151 days	7 102 315	8 371 122
	11 323 330	**11 923 888**

Receivables from non-exchange transactions past due but not impaired

At 30 June 2019, R 7 610 100 (2018: R 8 939 727) were past due but not impaired. The ageing of amounts past due but not impaired is as follows:

	2019 R	2018 R
1 month past due	167 456	148 579
2 months past due	149 621	142 098
3 months past due	158 758	110 918
4 months past due	31 950	167 010
More than 4 months past due	7 102 315	8 371 122
	7 610 100	**8 939 727**

Notes to the Annual Financial Statements

	2019 R	2018 R

5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2019, receivables from non-exchange transactions of R 67 858 079 (2018: R 59 723 565) were impaired and provided for. The ageing of these receivables is as follows:

	2019 R	2018 R
0 to 3 months	895 873	4 205 637
3 to 6 months	1 014 979	900 238
6 to 9 months	1 129 059	1 058 720
More than 9 months	64 818 168	53 558 970
	67 858 079	**59 723 565**

Reconciliation of the allowance for impairment of receivables from non-exchange transactions

	2019 R	2018 R
Opening balance	59 723 565	64 061 380
Provision for impairment	8 134 514	(4 337 815)
Balance at the end of the year	**67 858 079**	**59 723 565**

Rates are billed based on consumer choice (i.e. either monthly or annually). No interest is charged on rates accounts until the end of the following month. Thereafter interest is charged at a rate determined by Council on the outstanding balance. The municipality did not pledge any of its receivables from non-exchange transactions as security for borrowing purposes.

In determining the recoverability of receivables from non-exchange transactions, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers in the Cradock and Middelburg geographical area. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

6. VAT receivable

	2019 R	2018 R
VAT provided for on debtors	(11 211 684)	(8 662 481)
VAT provided for on creditors	19 707 024	11 491 448
VAT due to the South African Revenue Service	(125 014)	(1 088 063)
	8 370 326	**1 740 904**

No interest is payable to the SARS if the VAT is paid over timeously, however interest and penalties for late payments is charged according to the SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

7. Consumer debtors from exchange transactions

	2019 R	2018 R
Gross balances		
Electricity	32 079 167	22 860 864
Refuse	85 010 962	71 038 832
	117 090 129	**93 899 696**
Less: Allowance for impairment		
Electricity	(9 470 715)	(7 436 284)
Refuse	(83 073 436)	(69 591 374)
	(92 544 151)	**(77 027 658)**

	2019 R	2018 R

7. Consumer debtors from exchange transactions (continued)

Net balance		
Electricity	22 608 452	15 424 580
Refuse	1 937 526	1 447 458
	24 545 978	**16 872 038**

The ageing of consumer debtors from exchange transactions is as follows:

Electricity		
Current (0 -30 days)	5 456 877	5 719 788
31 - 60 days	1 126 449	374 500
61 - 90 days	869 683	542 325
91 - 120 days	1 375 676	829 493
121 - 365 days	987 650	207 747
> 365 days	12 792 117	7 750 727
	22 608 452	**15 424 580**

Refuse		
Current (0 -30 days)	1 059 304	842 608
31 - 60 days	102 100	80 484
61 - 90 days	108 623	103 925
91 - 120 days	92 094	78 537
121 - 365 days	28 011	16 906
> 365 days	547 394	324 998
	1 937 526	**1 447 458**

Consumer debtors from exchange transactions past due but not impaired

At 30 June 2019, R 18 029 797 (2018: R 13 489 946) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1 228 549	454 984
2 months past due	978 306	646 250
3 months past due	1 467 770	908 030
4 months past due	1 015 661	224 653
More than 4 months past due	13 339 511	8 075 725
	18 029 797	**10 309 642**

Consumer debtors from exchange transactions impaired

As of 30 June 2019, consumer debtors from exchange transactions of R 92 945 771 (2018: R 77 574 739) were impaired and provided for. The ageing of these consumer debtors is as follows:

0 to 3 months	2 497 513	2 736 790
3 to 6 months	2 643 128	2 189 675
6 to 9 months	2 847 486	2 127 920
Over 6 months	84 957 644	70 520 354
	92 945 771	**77 574 739**

Notes to the Annual Financial Statements

	2019 R	2018 R

7. Consumer debtors from exchange transactions (continued)

Reconciliation of the allowance for impairment of consumer debtors

	2019 R	2018 R
Opening balance	77 027 658	70 016 453
Allowance for impairment	15 516 493	7 011 205
Balance at the end of the year	**92 544 151**	**77 027 658**

Consumer debtors from exchange transactions are billed monthly. No interest is charged on consumer debtor accounts until the end of the following month. Thereafter interest is charged at a rate determined by Council on the outstanding balance.

The municipality did not pledge any of its consumer debtors from exchange transactions as security for borrowing purposes.

In determining the recoverability of consumer debtors from exchange transactions, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers in the Cradock and Middelburg geographical area. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019 R	2018 R
Bank balances	6 935 179	1 336 526
Short-term deposits	542 071	513 829
	7 477 250	**1 850 355**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019 R	**30 June 2018 R**	**30 June 2017 R**	**30 June 2019 R**	**30 June 2018 R**	**30 June 2017 R**
First National Bank - 51980028125	6 515 071	664 494	1 251 428	6 905 746	1 334 129	1 506 292
First National Bank - 51981035195	29 432	2 397	102 696	29 432	2 397	102 696
First National Bank - 62483143493	368	366	26 664	368	366	26 664
ABSA Bank - 9274923100	175 538	166 303	158 052	175 538	166 303	158 052
ABSA Bank - 9264494272	148 543	141 225	134 785	148 543	141 225	134 785
ABSA Bank - 9247070027	70 846	67 366	64 661	70 846	67 366	64 661
Standard Bank of South Africa - 288553187010	136 679	128 854	120 765	136 679	128 854	120 765
Nedbank Limited - 08851015	10 098	9 715	9 358	10 098	9 715	9 358
Total	**7 086 575**	**1 180 720**	**1 868 409**	**7 477 250**	**1 850 355**	**2 123 273**

Notes to the Annual Financial Statements

	2019 R	2018 R

9. Investment property

	2019			2018		
	Fair value R	**Accumulated impairment R**	**Fair value less impairments R**	**Fair value R**	**Accumulated impairment R**	**Fair value less impairments R**
Investment property	37 919 000	-	37 919 000	39 520 000	-	39 520 000

Reconciliation of investment property - 2019

	Opening balance R	Disposals	Fair value adjustments R	Closing balance R
Investment property	39 520 000	(1 500 000)	(101 000)	37 919 000

Reconciliation of investment property - 2018

	Opening balance R	Fair value adjustments R	Closing balance R
Investment property	39 160 000	360 000	39 520 000

Details of valuation

The effective date of the revaluations was 30 June 2019. Fair valuations were performed by Engnet Solutions, who contracted an independent valuer, Mr Stefan Rudman, ND Real Estate (Property Valuations), who is registered with the Professional Valuers Council, Registration Number Reg number: 3693. Mr Stefan Rudman and Engnet Solutions are not connected to the municipality and have recent experience in location and category of the investment property being valued.

Based on the nature of the properties, different valuation methods were used. For vacant land, the comparable sales method of valuation was used. For sports clubs the replacement cost depreciation method of valuation was used, while for properties on which rental are charged, the income capitalisation method of valuation was used. Various assumptions are used for valuating the properties and these valuation certificates are available for inspection at the municipality. These assumptions are based on current market conditions. All of the municipality's investment property is held under freehold interests and no investment property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal. There are no contractual obligations on investment property. No impairment losses have been recognised on investment property of the municipality at the reporting date.

Amounts recognised in surplus or deficit

	2019	2018
Rental revenue from investment property	2 371 165	2 028 660
From investment property that generated rental revenue		
Direct operating expenses (excluding repairs and maintenance)	1 965 978	1 997 821
Repairs and maintenance	233 011	355 431
	2 198 989	**2 353 252**

10. Property, plant and equipment

	2019			2018		
	Cost	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
	R	**R**	**R**	**R**	**R**	**R**
Land	42 763 174	-	42 763 174	41 276 174	-	41 276 174
Buildings	142 661 407	(22 072 987)	120 588 420	142 661 407	(16 558 517)	126 102 890
Plant and machinery	6 306 544	(1 930 887)	4 375 657	2 659 050	(1 278 906)	1 380 144
Furniture and fittings	5 365 388	(3 831 622)	1 533 766	5 229 009	(2 806 793)	2 422 216
Motor vehicles	23 455 024	(16 242 983)	7 212 041	23 026 720	(12 567 713)	10 459 007
Office equipment	489 421	(265 549)	223 872	562 756	(265 549)	297 207
Computer equipment	4 379 699	(3 106 468)	1 273 231	4 343 618	(2 335 237)	2 008 381
Infrastructure	1 112 709 502	(188 068 320)	924 641 182	1 105 756 365	(141 487 926)	964 268 439
Community	95 043 113	(13 169 953)	81 873 160	95 043 113	(9 749 304)	85 293 809
Landfill sites	26 198 099	(26 198 099)	-	26 198 099	(26 198 099)	-
Work in progress	68 676 995	-	68 676 995	56 923 750	-	56 923 750
Total	**1 528 048 366**	**(274 886 868)**	**1 253 161 498**	**1 503 680 061**	**(213 248 044)**	**1 290 432 017**

Reconciliation of property, plant and equipment - 2019

	Opening balance	**Additions**	**Disposals**	**Transfers received**	**Depreciation**	**Expensed during the year**	**Closing balance**
	R	**R**	**R**		**R**		**R**
Land	41 276 174	1 500 000	(13 000)	-	-	-	42 763 17
Buildings	126 102 890	-	-	-	(5 514 470)	-	120 588 42
Plant and machinery	1 380 144	3 647 494	-	-	(651 981)	-	4 375 65
Furniture and fittings	2 422 216	52 037	-	-	(940 487)	-	1 533 76
Motor vehicles	10 459 007	428 304	-	-	(3 675 270)	-	7 212 04
Office equipment	297 207	11 008	-	-	(84 343)	-	223 87
Computer equipment	2 008 381	36 081	-	-	(771 231)	-	1 273 23
Infrastructure	964 268 439	-	(1 573 161)	9 292 257	(47 346 353)	-	924 641 18
Community	85 293 809	-	-	-	(3 420 649)	-	81 873 16
Landfill sites	-	-	-	-	-	-	
Work in progress	56 923 750	23 560 852	-	(9 292 257)	-	(2 515 350)	68 676 99
	1 290 432 017	**29 235 776**	**(1 586 161)**	**-**	**(62 404 784)**	**(2 515 350)**	**1 253 161 49**

Reconciliation of property, plant and equipment - 2018

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Depreciation**	**Closing balance**
	R	**R**	**R**	**R**	**R**	**R**
Land	41 276 174	-	-	-	-	41 276 174
Buildings	131 617 359	-	-	-	(5 514 469)	126 102 890
Plant and machinery	1 742 603	100 106	-	-	(462 565)	1 380 144
Furniture and fittings	3 342 699	26 454	-	-	(946 937)	2 422 216
Motor vehicles	12 201 589	2 676 283	-	-	(4 418 865)	10 459 007
Office equipment	314 606	71 017	-	-	(88 416)	297 207
Computer equipment	2 672 061	166 210	-	-	(829 890)	2 008 381
Infrastructure	1 011 683 548	-	(57 724)	-	(47 357 385)	964 268 439
Community	79 173 521	-	-	9 395 248	(3 274 960)	85 293 809
Landfill sites	-	-	-	-	-	-
Work in progress	33 651 372	32 667 626	-	(9 395 248)	-	56 923 750
	1 317 675 532	**35 707 696**	**(57 724)**	**-**	**(62 893 487)**	**1 290 432 017**

Notes to the Annual Financial Statements

10. Property, plant and equipment (continued)

Reconciliation of work-in-progress 2019

	Included within Infrastructure R	Included within Community R	Total R
Opening balance	-	-	-
Additions/capital expenditure	-	-	-
Transferred to completed items	-	-	-
	-	**-**	**-**

Reconciliation of work-in-progress - 2018

	Included within Infrastructure R	Included within Community R	Total R
Opening balance	14 133 657	19 517 715	33 651 372
Additions/capital expenditure	26 482 231	6 185 394	32 667 625
Transferred to completed items	-	(9 395 247)	(9 395 247)
	40 615 888	**16 307 862**	**56 923 750**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Refer to note 37 for details about repairs and maintenance disclosures.

11. Heritage assets

	2019			2018		
	Cost R	**Accumulated impairment losses R**	**Carrying value R**	**Cost R**	**Accumulated impairment losses R**	**Carrying value R**
Historical buildings	2 225 000	-	2 225 000	2 225 000	-	2 225 000

Reconciliation of heritage assets - 2019

	Opening balance R	Closing balance R
Historical buildings	2 225 000	2 225 000

Reconciliation of heritage assets - 2018

	Opening balance R	Closing balance R
Historical buildings	2 225 000	2 225 000

There are no restrictions on the realisability of heritage assets or the remittance of revenue and proceeds of disposal. There are no contractual obligations to purchase, construct or develop heritage assets or for repairs, maintenance or enhancements. There are no heritage assets pledged as security for liabilities. No impairment losses have been recognised on the heritage assets of the municipality at the reporting date.

12. Payables from exchange transactions

	2019 R	2018 R
Trade accruals	149 500 712	100 323 065
Accrued leave pay	4 874 718	4 116 722
Accrued thirteenth cheque	1 622 916	1 580 145
Other payroll accruals	15 373 652	9 187 670
Deposits received	1 562 863	1 432 298
Other payables	1 188 878	1 238 529
Retentions	3 122 917	2 333 189
Credit balances in debtors	6 109 402	6 603 569
	183 356 058	**126 815 187**

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe, however due to liquidity problems, the municipality was not able to meet payment commitments. Credit balances in debtors relates to overpaid debtors accounts.

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date. Accrued thirteenth cheque relates to the thirteenth cheque payable annually on the employees birthday month by the municipality. The accrual is an estimate of the amount due at the reporting date.

Other payables consists of unidentified deposits received by the municipality from account holders.

13. Payables from non-exchange transactions

	2019 R	2018 R
Due to National Treasury	-	3 752 433

For the year ended 30 June 2018, the municipality did not succeed in its application to apply for roll over of the unspent portion of this conditional grant and was required to repay the unspent portion to National Treasury. The amount was repaid through a reduction of the equitable share payments received during the year. Refer to note 27 for additional information.

14. Consumer deposits from exchange transactions

	2019 R	2018 R
Electricity	1 356 042	1 403 105

Consumer deposits from exchange transactions are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid by the municipality on consumer deposits from exchange transactions held.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2019 R	2018 R
Department of Sport, Recreational Arts and Culture: Libraries grant	525 159	800 025
Municipal Infrastructure Grant	8 585	-
Chris Hani District Municipality grant fund	900 000	900 000
	1 433 744	**1 700 025**

Notes to the Annual Financial Statements

	2019 R	2018 R

15. Unspent conditional grants and receipts (continued)

Movement during the year

	2019	2018
Balance at the beginning of the year	1 700 025	10 774 576
Grants received during the year	79 257 959	73 468 569
Income recognition during the year	(78 141 074)	(72 819 754)
Paid back to National Treasury	-	(9 723 366)
	1 433 744	**1 700 025**

See note 27 for reconciliation of grants received.

16. Employee benefit obligations

Long-service awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The liability represents an estimation of the awards to which employees in the service of the municipality may become entitled to in the future, based on an actuarial valuation performed.

At 30 June 2019, 329 (2018: 330) employees were eligible for long-service awards.

The independent valuers, ZAQ Consultants and Actuaries, have been engaged to carry out a GRAP 25: Employee benefits actuarial valuation of the municipality's liability as at 30 June 2019 arising out of the long-service awards to be awarded to qualifying in-service employees.

Long-service awards obligation	2019	2018
Balance at the beginning of the year	4 449 000	4 397 000
Current service costs	583 000	575 000
Interest cost	453 000	457 000
Benefits paid	(702 000)	(353 000)
Actuarial gains / (losses)	110 000	(627 000)
Balance at the end of the year	**4 893 000**	**4 449 000**

Assumptions

Key assumptions used

	2019	2018
Discount rate	8.01 %	8.75 %
Consumer price inflation	4.96 %	6.02 %
Normal salary increase rate	7.36 %	7.02 %
Net effective discount rate	1.93 %	1.46 %

Employee information for year ended 30 June 2019	**Male**	**Female**	**Total**
Number of active employees	243	86	329
Salary weighted average age (years)	44.54	42.80	44.05
Weighted average past service (years)	10.19	11.07	10.44

Employee information for year ended 30 June 2018	**Male**	**Female**	**Total**
Number of active employees	239	91	330
Salary weighted average age (years)	44.66	43.02	44.17
Weighted average past service (years)	10.16	11.73	10.63

Sensitivity

16. Employee benefit obligations (continued)

In order to illustrate the sensitivity as a result of changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of mortality.
- 1% increase/decrease in the normal salary inflation

Change in assumed level of withdrawal for year ended 30 June 2019	**20% increase**	**20% decrease**
	R	**R**
Effect on the interest cost	(23 000)	25 000
Effect on the service cost	(41 000)	48 000
Effect on long-service award obligation	(211 000)	235 000

Change in normal salary inflation for year ended 30 June 2019	**1% increase**	**1% decrease**
	R	**R**
Effect on the interest cost	32 000	(30 000)
Effect on the service cost	46 000	(42 000)
Effect on long-service award obligation	301 000	(275 000)

Change in assumed level of withdrawal for year ended 30 June 2018	**20% increase**	**20% decrease**
	R	**R**
Effect on the interest cost	(20 000)	23 000
Effect on the service cost	(38 000)	44 000
Effect on long-service award obligation	(188 000)	209 000

Change in normal salary inflation for year ended 30 June 2018	**1% increase**	**1% decrease**
	R	**R**
Effect on the interest cost	29 000	(26 000)
Effect on the service cost	43 000	(38 000)
	267 000	(245 000)

Amounts for the current and previous four years are as follows:

	2019	**2018**	**2017**	**2016**	**2015**
	R	**R**	**R**	**R**	**R**
Long-service award obligation	4 893 000	4 449 000	4 397 000	3 944 000	3 575 000

	2020	**2021**	**2022**
Liability at the beginning of the year	4 893 000	5 233 000	5 656 415
Current service cost	634 000	666 236	702 781
Interest cost	482 000	514 179	565 639
Expected benefits to be paid	(776 000)	(757 000)	(602 000)
Liability at the end of the year	**5 233 000**	**5 656 415**	**6 322 835**

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement. The municipality is thus liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The independent valuers, ZAQ Consultants and Actuaries, have been engaged to carry out an GRAP 25: Employee Benefits actuarial valuation of the municipality's liability as at 30 June 2019 arising out of the post retirement medical aid plan awarded to qualifying in-service employees.

Notes to the Annual Financial Statements

	2019 R	2018 R

16. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	31 781 000	33 738 000

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	33 738 000	41 281 000
Current service costs	706 000	1 054 000
Interest cost	3 288 000	4 160 000
Benefits paid	(1 854 000)	(1 964 330)
Actuarial gains / (losses)	(4 097 000)	(10 792 670)
Balance at the end of the year	**31 781 000**	**33 738 000**

Current service costs are included in employee related costs in the statement of financial performance (refer to note 30).

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.11 %	10.47 %
Consumer price inflation	6.73 %	7.29 %
Medical aid inflation	7.73 %	8.29 %
Net effective discount rate	2.20 %	2.01 %

The nominal and real zero curves as at 30 June 2019 supplied by the JSE were used to determine the discount rates and CPI assumptions at each relevant time period.

Employee assumptions

Current (In Service) Members - 2019	**Male**	**Female**	**Total**
Number of active employees	58	40	98
Subsidy weighted average age	47.0	43.3	45.5
Subsidy weighted average past service	12.1	12.3	12.2
Number of spouses	21	8	29
Average monthly subsidy payable during retirement	1 990	1 950	1 970

Current (In Service) Members - 2018	**Male**	**Female**	**Total**
Number of active employees	52	39	91
Subsidy weighted average age	46.7	44.1	45.5
Subsidy weighted average past service	14.0	13.4	13.7
Number of spouses	15	8	23
Average monthly subsidy payable during retirement	1 720	1 950	1 820

Continuation Members (Pensioners) - 2019	**Male**	**Female**	**Total**
Number of continuation members	31	20	51
Subsidy weighted average age	73.4	72.4	73.0
Average monthly subsidy	3 170	2 840	3 040

Continuation Members (Pensioners) - 2018	**Male**	**Female**	**Total**
Number of continuation members	31	23	54
Subsidy weighted average age	73.2	71.1	72.4
Average monthly subsidy	3 140	2 660	2 940

Sensitivity

Notes to the Annual Financial Statements

	2019 R	2018 R

16. Employee benefit obligations (continued)

In order to illustrate the sensitivity as a result of changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of mortality.
- 1% increase/decrease in the medical aid inflation.

Change in mortality rate - 2019	**20% increase R**	**20% decrease R**
Effect on the interest cost	246 000	(308 000)
Effect on the current service cost	72 000	(89 000)
Effect on post retirement medical aid obligation	2 446 000	(3 064 000)

Change in mortality rate - 2018	**20% increase R**	**20% decrease R**
Effect on the interest cost	261 000	(328 000)
Effect on the current service cost	61 000	(75 000)
Effect on post retirement medical aid obligation	2 602 000	(3 268 000)

Change in medical aid inflation - 2019	**1% increase R**	**1% decrease R**
Effect on the interest cost	(401 000)	335 000
Effect on the current service cost	(202 000)	157 000
Effect on post retirement medical aid obligation	(3 944 000)	3 302 000

Change in medical aid inflation - 2018	**1% increase R**	**1% decrease R**
Effect on the interest cost	(428 000)	358 000
Effect on the current service cost	(168 000)	130 000
Effect on post retirement medical aid obligation	(4 222 000)	3 540 000

Amounts for the current and previous four years are as follows:

	2019 R	**2018 R**	**2017 R**	**2016 R**	**2015 R**
Defined benefit obligation	31 781 000	33 738 000	41 281 000	37 958 000	37 477 000
Experience adjustments on plan liabilities	4 097 000	10 792 670	(224 292)	2 432 920	4 695 637

	2020 R	**2021 R**	**2022 R**
Liability at the beginning of the year	31 781 000	33 809 000	36 135 000
Current service cost	868 000	954 000	1 049 000
Interest cost	3 099 000	3 303 000	3 541 000
Expected benefits to be paid	(1 939 000)	(1 931 000)	(1 876 000)
Liability at the end of the year	**33 809 000**	**36 135 000**	**38 849 000**

	2019 R	2018 R

17. Provisions

Reconciliation of provisions - 2019

	Opening balance R	Interest cost R	Change in estimate R	Closing balance R
Rehabilitation of landfill site	23 869 595	1 961 385	(779 434)	25 051 546

Reconciliation of provisions - 2018

	Opening balance R	Interest cost R	Change in estimate R	Closing balance R
Rehabilitation of landfill site	23 071 653	1 997 063	(1 199 121)	23 869 595

The municipality has an obligation to rehabilitate its landfill sites in terms of the closure license received on 16 March 2015. The estimated value of the rehabilitation cost of landfill sites has been determined as at 30 June 2019 by technical specialists, ZAQ Consultants and Actuaries. The provision is the best estimate of the value of rehabilitation costs of the landfill sites to restore the sites at the end of their useful lives. In the prior year the opinion changed as to classify the provision as a non-current liability and not a current liability as, practically it will take a period of 5 years for Cradock and 8 years for Middelburg to effectively rehabilitate their landfill and move to a new site. The opening balance was adjusted as a result of the change.

The following assumptions were made when calculating the provision:

- Costs included in the provision relate only to costs associated with closure, pre-closure and post-closure of the current landfill site. Any costs associated with a new site will be capitalised to a new landfill asset in future.
- The previous year’s costs have been escalated by the CPI rate of 4.4%.
- An area of 2.7 Ha has been assumed to be required for capping.
- A Geosynthetic Clay Liner (GCL) with a soil cover layer has been assumed for capping since there is no bottom liner present.
- Due to the GCL being used a gas drainage system has been allowed for.
- Pre-closure costs requirements have been re-evaluated based on current conditions of the landfill as well as outstanding items such as drilling of boreholes that have not been performed to date.
- The following CPI rates were used in determining the future value of the costs incurred:
  - Cradock: 4.65% (30 June 2018: 5.6%, 30 June 2017: 5.67%).
  - Middelburg: 5.28% (30 June 2018: 6.03%, 30 June 2017: 6.39%).
- The following discount rates were used in determining the present value of the costs incurred:
  - Cradock: 7.67% (30 June 2018: 8.2%, 30 June 2017: 8.24%).
  - Middelburg: 8.61% (30 June 2018: 8.79%, 30 June 2017: 8.95%).
- It is assumed that Cradock will be able to rehabilitate their land over a period of 5 years and Middelburg over a period of 8 years.

The discounted cost to rehabilitate the landfill sites are calculated to be:	**Rehabilitation cost**	
Cradock Landfill	11 070 583	9 977 317
Middelburg Landfill	13 980 962	13 892 278
	25 051 545	**23 869 595**

18. Service charges

Refuse removal	26 689 943	21 813 656
Sale of electricity	88 694 100	87 084 246
	115 384 043	**108 897 902**

	2019 R	2018 R

19. Rental of facilities and equipment

	2019 R	2018 R
Premises		
Premises	1 455 786	1 343 312
Venue hire	297 071	380 706
	1 752 857	**1 724 018**
Garages and parking		
Parking rental	128	182
Facilities and equipment		
Rental of facilities	135 723	109 181
Rental of equipment	157 902	237 794
Vehicle hire	20 575	3 739
	314 200	**350 714**
	2 067 185	**2 074 914**

Rental revenue earned on facilities and equipment is in respect of non-financial assets rented out.

20. Agency services

	2019 R	2018 R
Department of Roads and Transport	2 105 492	4 553 386

21. Sundry fees and income

	2019 R	2018 R
Administration fees received	23 857	59 158
Cemetery fees	569 888	568 054
Clearance application fees	70 746	52 208
Commission received	(85 817)	108 015
Connection fees	160 871	209 782
Adjustment to provision for rehabilitation	779 434	1 199 122
Plan fees	258 822	276 770
Sundry fees	(240 032)	5 165 636
	1 537 769	**7 638 745**

22. Interest revenue

	2019 R	2018 R
Bank	254 988	263 928
Interest charged on consumer debtors and arrear rates	10 741 565	12 401 907
	10 996 553	**12 665 835**

23. Gain / (loss) on disposal of assets and liabilities

	2019 R	2018 R
Property, plant and equipment	(1 446 066)	299 218

24. Fair value adjustments

	2019 R	2018 R
Investment property (Fair value model)	(101 000)	360 000

25. Actuarial gains / (losses)

Actuarial gains / (losses) for the year is stated after accounting for the following:

Notes to the Annual Financial Statements

	2019 R	2018 R

25. Actuarial gains / (losses) (continued)

	2019 R	2018 R
Actuarial gains on the post retirement medical benefit obligation	4 097 000	12 046 670
Actuarial losses on the long service award	(110 000)	(627 000)
	3 987 000	**11 419 670**

26. Property rates

Rates received

	2019 R	2018 R
Property rates	42 888 047	40 293 224

Valuations

	2019 R	2018 R
Commercial	392 274 000	392 699 000
Public Service Infrastructure	17 544 600	13 099 600
Residential	1 616 500 100	1 614 739 100
Small holdings and farms	2 482 284 600	2 485 474 100
State	436 688 969	431 945 969
	4 945 292 269	**4 937 957 769**

Property rates are levied on the value of land and improvements, for which valuation is performed every four years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions. Rates are levied based on consumer choice (i.e. monthly or annually) on property owners and are payable the end of each month. Interest is levied at a rate determined by Council on outstanding rates amounts.

27. Government grants and subsidies

	2019 R	2018 R
Operating grants		
Equitable share	38 708 744	40 310 947
Finance Management Grant	2 215 000	2 145 000
Expanded Public Works Programme Integrated grant	1 456 000	1 079 000
Department of Sport, Recreational Arts and Culture: Libraries grant	2 780 811	2 761 185
Cooperative Governance and Traditional Affairs grant	-	1 154 000
Skills Education Training Authority (SETA) grant	-	56 622
Audit fees subsidy received from National Treasury	-	4 703 939
	45 160 555	**52 210 693**
Capital grants		
Municipal Infrastructure Grant	26 780 755	16 313 000
Integrated National Electrification Program grant	7 000 000	9 000 000
	33 780 755	**25 313 000**
	78 941 310	**77 523 693**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All indigent households receive 50 kWh electricity free every month. No funds have been withheld.

All registered indigents receive a monthly subsidy of R 352 (2018: R 313), which is funded from the grant.

	2019 R	2018 R

27. Government grants and subsidies (continued)

Finance Management Grant

Balance unspent at beginning of year	-	-
Current-year receipts	2 215 000	2 145 000
Conditions met - transferred to revenue	(2 215 000)	(2 145 000)
Balance unspent at the end of the year	**-**	**-**

All conditions attached to this grant have been met.

Expanded Public Works Programme Integrated grant

Balance unspent at beginning of year	-	-
Current-year receipts	1 456 000	1 079 000
Conditions met - transferred to revenue	(1 456 000)	(1 079 000)
Balance unspent at the end of the year	**-**	**-**

All conditions attached to this grant have been met.

Department of Sport, Recreational Arts and Culture: Libraries grant

Balance unspent at beginning of year	800 025	1 051 210
Current-year receipts	2 510 000	2 510 000
Conditions met - transferred to revenue	(2 784 866)	(2 761 185)
Balance unspent at the end of the year	**525 159**	**800 025**

All conditions attached to this grant have not yet been met (see note 15).

Chris Hani District Municipality grant funding

Balance unspent at beginning of year	900 000	-
Current-year receipts	-	900 000
Balance unspent at the end of the year	**900 000**	**900 000**

All conditions attached to this grant have not yet been met (see note 15).

Cooperative Governance and Traditional Affairs grant

Balance unspent at beginning of year	-	-
Current-year receipts	-	1 154 000
Conditions met - transferred to revenue	-	(1 154 000)
Balance unspent at the end of the year	**-**	**-**

All conditions attached to this grant have been met in the prior year.

Skills Education Training Authority (SETA) grant

Balance unspent at beginning of year	-	-
Current-year receipts	-	56 622
Conditions met - transferred to revenue	-	(56 622)
Balance unspent at the end of the year	**-**	**-**

All conditions attached to this grant have been met in the prior year.

Notes to the Annual Financial Statements

	2019 R	2018 R

27. Government grants and subsidies (continued)

Audit fees subsidy received from National Treasury

	2019 R	2018 R
Current-year receipts	-	4 703 939
Conditions met - transferred to revenue	-	(4 703 939)
	-	**-**

Municipal Infrastructure Grant

	2019 R	2018 R
Balance unspent at beginning of year	-	6 723 081
Current-year receipts	27 562 000	16 313 000
Conditions met - transferred to revenue	(27 553 415)	(16 313 000)
Paid back to National Treasury	-	(4 399 200)
Payable to National Treasury	-	(2 323 881)
Balance unspent at the end of the year	**8 585**	**-**

All conditions attached to this grant have not been met (see note 15).

Integrated National Electrification Program grant

	2019 R	2018 R
Balance unspent at beginning of year	-	3 000 285
Current-year receipts	7 000 000	9 000 000
Conditions met - transferred to revenue	(7 000 000)	(9 000 000)
Paid back to National Treasury	-	(2 932 800)
Payable to National Treasury	-	(67 485)
Balance unspent at the end of the year	**-**	**-**

All conditions attached to this grant have been met.

28. Fines

	2019 R	2018 R
Traffic fines	140 208	232 258

29. Revenue

	2019 R	2018 R
Actuarial gains	-	11 419 670
Adjustment to provisions for rehabilitation	779 434	1 199 122
Agency services	2 105 492	4 553 386
Fair value adjustment	-	360 000
Fines	140 208	232 258
Gain on disposal of assets	-	299 218
Government grants and subsidies	78 941 310	77 523 693
Interest revenue	10 996 553	12 665 835
Property rates	42 888 047	40 293 224
Rental of facilities and equipment	2 067 185	2 074 914
Service charges	115 384 043	108 897 902
Sundry fees and income	1 537 769	7 638 745
	254 840 041	**267 157 967**

	2019 R	2018 R
29. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Actuarial gains	-	11 419 670
Adjustment to provisions for rehabilitation	779 434	1 199 122
Agency services	2 105 492	4 553 386
Fair value adjustments	-	360 000
Gain on disposal of assets	-	299 218
Interest revenue	10 996 553	12 665 835
Rental of facilities and equipment	2 067 185	2 074 914
Service charges	115 384 043	108 897 902
Sundry fees and income	1 537 769	7 638 745
	132 870 476	**149 108 792**
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	42 888 047	40 293 224
Transfer revenue		
Government grants and subsidies	78 941 310	77 523 693
Fines	140 208	232 258
	121 969 565	**118 049 175**

30. Employee related costs

	2019 R	2018 R
Acting allowances	14 550	2 092 422
Adjustments to post retirement medical obligation	706 000	1 054 000
Bargaining council levy	34 094	(1 655)
Basic	59 270 859	52 410 584
Group life insurance	936	936
Housing benefits and allowances	876 384	509 906
Long-service awards	583 000	222 000
Medical aid - company contributions	2 757 579	2 554 187
Other allowances	4 423 620	3 183 018
Overtime payments	3 775 888	4 716 223
Pension contributions	8 222 220	7 451 239
SDL	699 383	683 591
Thirteenth cheque	4 208 449	4 630 848
Travel, motor car, accommodation and subsistence allowances	2 185 116	1 876 433
UIF	644 354	581 103
	88 402 432	**81 964 835**

Refer to note 53 for remuneration paid to section 57 managers.

31. Remuneration of councillors

	2019 R	2018 R
Executive Mayor	881 196	860 579
Executive committee members	2 256 571	2 160 213
Speaker	714 337	686 762
Councillors	3 417 672	3 287 677
Councillors' allowances	7 269 776	6 995 231
Ward committee members' allowances	844 000	930 726
	8 113 776	**7 925 957**

Notes to the Annual Financial Statements

	2019 R	2018 R

31. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Speaker and some executive committee members are full-time councillors. The Executive Mayor and Speaker is provided with an office and secretarial support at the cost of the Council. Remuneration of councillors includes the total earnings for the annum plus the employer contributions for the year. Refer to note 54 for remuneration paid to councillors.

32. Depreciation

	2019 R	2018 R
Property, plant and equipment	62 404 783	62 893 490

33. Impairment / (reversal of impairment) of assets

	2019 R	2018 R
Consumer debtors from exchange transactions	15 516 492	7 276 808
Consumer debtors from exchange transactions have been impaired as a result of non-payment by account holders. The municipality have implemented collection procedures against these accounts which have not been successful to date.		
Receivables from exchange transactions	29 159	(787 968)
Receivables from exchange transactions have been impaired as a result of non-payment by account holders. The municipality have implemented collection procedures against these accounts which have not been successful to date.		
Receivables from non-exchange transactions	8 134 514	(4 337 815)
Receivables from non-exchange transactions have been impaired as a result of non-payment by account holders. The municipality have implemented collection procedures against these accounts which have not been successful to date.		
	23 680 165	**2 151 025**

34. Finance costs

	2019 R	2018 R
Interest expense on rehabilitation provisions	1 961 385	1 997 063
Payables from exchange transactions	8 957 010	7 946 629
Interest expense on employee benefit obligations	3 741 000	4 617 000
	14 659 395	**14 560 692**

35. Lease rentals on operating lease

	2019 R	2018 R
Equipment		
Contractual amounts	881 655	1 277 566

The lease agreements are for office equipment leased from 1 August 2017 for a period of 3 years and 2 additional machines leased from 1 March 2018 for a period of 29 months.

36. Bad debts written off

	2019 R	2018 R
Bad debts written off	-	12 938 815

Notes to the Annual Financial Statements

	2019 R	2018 R

36. Bad debts written off (continued)

During the comparative year the municipality identified long outstanding debtor accounts that were unlikely to be collected. These accounts were presented and approved by Council to be written off.

37. Repairs and maintenance

	2019 R	2018 R
Buildings and structures	835 966	406 124
Office equipment	429 376	120 398
Infrastructure	4 275 832	3 373 180
Vehicles	563 946	495 550
Tools and accessories	143 737	98 239
	6 248 857	**4 493 491**

38. Bulk purchases

	2019 R	2018 R
Electricity	68 460 933	64 444 219

39. Contracted services

	2019 R	2018 R
Consultants and Professional Services		
Preparation of financial statements and improving audit outcomes	2 698 325	4 218 900
Preparation of fixed asset register	4 570 300	7 785 826
Municipal finance system maintenance	1 742 845	2 348 075
VAT recovery services	349 707	464 071
Other	3 036 713	1 058 898
Implementing the performance management system	2 956 000	2 665 667
	15 353 890	**18 541 437**

40. General expenses

	2019 R	2018 R
Advertising	300 894	667 430
Auditors remuneration	4 644 577	4 931 978
Bank charges	897 484	763 873
Commission paid	1 227 295	1 288 970
Computer expenses	470 474	962 634
Consulting and professional fees	455 605	542 417
Consumables	1 527 353	1 034 607
Free basic electricity	12 766 943	15 976 404
Income forgone	3 254 382	3 098 317
Insurance	2 032 594	1 531 066
Inventory written off	-	88 457
Membership fees	40 740	1 655 885
Motor vehicle expenses	2 132 639	2 108 416
Other expenses	2 227 582	1 609 120
Postage and courier	1 068 895	1 403 393
Printing and stationery	426 134	409 327
Protective clothing	-	24 142
Refuse bags and bins	197 631	174 159
Security (Guarding of municipal property)	405 427	519 163
Special programs and events	409 734	1 921 629
Staff welfare	112 228	12 505
Telephone and fax	1 855 398	1 356 611
Training	1 187 090	1 195 143
Water	1 438 913	1 993 072
	39 080 012	**45 268 718**

Notes to the Annual Financial Statements

	2019 R	2018 R

41. Auditors' remuneration

Fees	4 644 577	4 931 978

42. Cash (used in) / generated from operations

Deficit	(72 742 340)	(50 647 087)
Adjustments for:		
Depreciation	62 404 783	62 893 490
Gain (loss) on sale of assets and liabilities	1 446 066	(299 218)
Fair value adjustments	101 000	(360 000)
Impairment deficit	23 680 165	2 151 025
Bad debts written off	-	12 938 815
Adjustment to provisions for rehabilitation	(779 434)	(1 199 122)
Interest expense provisions for rehabilitation	1 961 385	1 997 063
Benefits paid on employee benefit obligation	(2 556 000)	(2 317 330)
Interest cost on employee benefit obligations	3 741 000	4 617 000
Current service cost on employee benefit obligations	1 289 000	1 629 000
Actuarial losses / (gains) on employee benefit obligation	(3 987 000)	(11 419 670)
Expensed from work in progress	2 515 350	552 968
Changes in working capital:		
Inventories	(28 969)	(101 493)
Receivables from exchange transactions	1 078 987	(679 416)
Gross consumer debtors from exchange transactions	(23 190 431)	(1 047 981)
Gross receivables from non-exchange transactions	(7 556 658)	(11 835 812)
Payables from exchange transactions	56 540 871	42 693 688
VAT	(6 629 422)	(7 883 608)
Payables from non-exchange transactions	(3 752 433)	2 391 366
Unspent conditional grants and receipts	(266 281)	(9 074 551)
Consumer deposits	(47 063)	78 709
	33 222 576	**35 077 836**

43. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Community assets	21 790 667	12 940 625
• Infrastructure assets	29 770 925	24 161 857
	51 561 592	**37 102 482**

Other commitments

Already contracted for but not provided for		
• Other	1 535 396	5 504 709

Total commitments

Total commitments		
Authorised capital expenditure	51 561 592	37 102 482
Other	1 535 396	5 504 709
	53 096 988	**42 607 191**

This committed expenditure relates to various capital projects and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant income received.

Notes to the Annual Financial Statements

	2019 R	2018 R

43. Commitments (continued)

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	687 981	609 732
- in second to fifth year inclusive	745 312	1 411 850
	1 433 293	**2 021 582**

The lease agreements are for office equipment leased from 1 August 2017 for a period of 3 years and 2 additional machines leased from 1 March 2018 for a period of 29 months.

Refer to note 55 for details on the prior period error.

44. Contingencies

Contingent liabilities

The Department of Economic Development, Environmental Affairs and Tourism issued a closure license in March 2015 for both landfill sites operated by the municipality. In terms of the closure license, the municipality is authorised to decommission and rehabilitate the landfill sites. The license sets out the terms and conditions of the closure license and required actions to be taken by the municipality. Because the municipality continues to use these sites, it is exposed to the risk of litigation due to damage caused to the surrounding environment and the residents of the municipal area. The extent of the risk exposure in unknown.

Inxuba Yethemba Local Municipality vs. Cradock Business Forum and Great Fish River Water User's Association - The applicants are in the process of obtaining a court order which requires the municipality to perform the land fill site rehabilitation immediately. Should the court order be successful the municipality could be liable to pay the legal costs.

Inxuba Yethemba Local Municipality vs. Nelio Benedito - The Plaintiff initiated a claim against the municipality for defamation resulting from an averred disconnection of the electricity supply to his property in Middelburg. The claim is estimated to be R 50 000. The matter was still ongoing at year-end.

Inxuba Yethemba Local Municipality vs. Iqhayiya Design Workshop - After the Plaintiff failed to produce draft tender documents within the specified timeframe, the municipality terminated the contract. Action was instituted against the municipality with the Plaintiffs claiming an amount for damages against the Defendants of R 2 007 89 in their claim dated 19 April 2018.

Inxuba Yethemba Local Municipality vs Siphiwo G. Tyindi - The Plaintiff was appointed to refurbish the existing municipal pound. Breach of construction contract resulted in a claim that was instituted against the municipality for damages in the amount of R90 654.

Contingent assets

H M Russel CC; Gordon, Verhoef & Krause (EP) (Pty) Ltd and Miltek Industries South Africa (Pty) Ltd vs. Inxuba Yethemba Local Municipality - The claim emanates from damages suffered by the Municipality as a result of the failure of the roof of the town hall. The matter is still in its initial stages. Summons has been issued and served and pleadings have not yet been closed. The claim by the municipality is estimated to be R 500 000.

Mrs. P Zimba vs. Inxuba Yethemba Local Municipality - The claim by the municipality against one of their cashiers, is estimated to be R 71 437, based on a cash shortage identified.

45. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk.

Notes to the Annual Financial Statements

	2019	2018
	R	R

45. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2019	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R	Over 5 years R
Payables from exchange transactions	178 481 340	-	-	-

At 30 June 2018	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R	Over 5 years R
Payables from exchange transactions	122 698 465	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables from exchange transactions. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables from exchange transactions comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by Council. The utilisation of credit limits is regularly monitored. Services are suspended in terms of the municipality's credit policy should payment or an agreement not be made by the required date. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - receivables from exchange transactions and cash and cash equivalents.

These balances represent the maximum exposure to credit risk:

Financial instrument	2019	2018
Cash and cash equivalents	7 477 250	1 850 355
Receivables from exchange transactions	957 471	2 060 682
Receivables from non-exchange transactions	11 323 330	11 923 888
Consumer debtors from exchange transactions	24 545 978	20 052 342

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

46. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost R	Total R
Trade and other receivables from exchange transactions	957 471	957 471
Other receivables from non-exchange transactions	11 323 330	11 323 330
Consumer debtors	24 545 978	24 545 978
Cash and cash equivalents	7 477 250	7 477 250
	44 304 029	**44 304 029**

Financial liabilities

	At amortised cost R	Total R
Trade and other payables from exchange transactions	178 481 340	178 481 340
Consumer deposits	1 356 042	1 356 042
Unspent conditional grants	1 433 744	1 433 744
	181 271 126	**181 271 126**

2018

Financial assets

	At amortised cost R	Total R
Trade and other receivables from exchange transactions	2 060 682	2 060 682
Other receivables from non-exchange transactions	11 923 888	11 923 888
Consumer debtors	20 052 342	20 052 342
Cash and cash equivalents	1 850 355	1 850 355
	35 887 267	**35 887 267**

Financial liabilities

	At amortised cost R	Total R
Trade and other payables from exchange transactions	122 698 465	122 698 465
Consumer deposits	1 403 105	1 403 105
Unspent conditional grants	1 700 025	1 700 025
Trade and other payables from non-exchange transactions	3 752 433	3 752 433
	129 554 028	**129 554 028**

Notes to the Annual Financial Statements

	2019 R	2018 R

47. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus / (deficit) of R 1 098 702 639 and that the municipality's total liabilities exceed its assets by R 1 098 702 639.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Material uncertainties regarding the going concern assumption exist due to the following:
- Significant cash flow problems of the municipality resulting in outstanding payments to creditors. The municipality has engaged with its most significant creditor to negotiate an affordable repayment plan.
- Long outstanding receivables that are considered irrecoverable.
- The municipality is in a net current liability position, which indicates that the municipality is not liquid.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality from national and provincial government.

48. Unauthorised expenditure

	2019 R	2018 R
Community services	-	10 248 942
Corporate	-	12 650 124
Executive Mayor and Council	-	8 184 626
Finance	-	31 472 376
Municipal Manager	-	4 033 526
	-	**66 589 594**

Unauthorised expenditure is presented per department. The municipality has identified unauthorised expenditure during the current and prior periods. At balance sheet date, it is not known whether this expenditure is recoverable. No material losses were written off during the year.

49. Fruitless and wasteful expenditure

During the year the municipality incurred the following interest expenditure which was deemed to be fruitless and wasteful:

	2019 R	2018 R
Interest on creditors	13 519 708	7 789 800

At balance sheet date, it is not known whether this expenditure is recoverable. No material losses were written off during the year.

50. Irregular expenditure

	2019 R	2018 R
Opening balance	158 515 348	92 940 428
Add: Irregular Expenditure - current	67 667 386	65 574 920
Irregular expenditure awaiting ratification and condonement	**226 182 734**	**158 515 348**

Details of additional irregular expenditure during the year

	2019 R	2018 R
R 2 000 to R 10 000 - Various suppliers	559 513	1 113 472
R 10 000 to R 30 000 - Various suppliers	3 172 305	2 475 136
R 30 000 to R 200 000 - Various suppliers	4 610 583	4 534 789
More than R 200 000 - Various suppliers	59 324 985	57 451 523
	67 667 386	**65 574 920**

Notes to the Annual Financial Statements

	2019 R	2018 R

50. Irregular expenditure (continued)

The municipality has identified irregular expenditure during the current and prior periods. Investigations into irregular expenditure have been performed for the financial years ending 30 June 2015 and 30 June 2016. As at 30 June 2019 the amounts had not yet been condoned by Council. At balance sheet date, it is not known whether this expenditure is recoverable. No material losses were written off during the year. A register containing the details of irregular expenditure is available for inspection at the municipal offices.

51. Events after the reporting date

No material fact or circumstance has occurred between the accounting date and the date the financial statements are authorised for issue other than those items already mentioned which required disclosure in the annual financial statements.

52. Additional disclosure in terms of section 125 of the Municipal Finance Management Act

Contributions to organised local government

	2019 R	2018 R
Balance payable at the beginning of the year	1 183 145	746 242
Current year subscription / fee	974 704	639 812
Amount paid - current year	(575 859)	-
Amount paid - previous years	(866 280)	(202 909)
Balance payable at the end of the year	**715 710**	**1 183 145**

Audit fees (amounts excludes VAT)

	2019 R	2018 R
Balance payable at the beginning of the year	724 521	2 612 587
Prior year audit fees charged in current year	3 606 658	4 227 116
Current year audit fees charged in current year	1 075 245	704 862
Interest charged during the year	188 174	282 967
Amount paid - previous years	(2 173 527)	(2 769 999)
Subsidy received from National Treasury	-	(4 333 012)
Balance payable at the end of the year	**3 421 071**	**724 521**

PAYE, UIF and SDL

	2019 R	2018 R
Balance payable at the beginning of the year	9 124 549	739 096
Current year subscription / fee	11 296 073	10 400 971
Interest and penalties	1 781 204	1 151 268
Amount paid - current year	(7 250 491)	(3 166 786)
Amount paid - previous years	(960 111)	-
Balance payable at the end of the year	**13 991 224**	**9 124 549**

Pension and Medical Aid Deductions

	2019 R	2018 R
Balance at the beginning of the year	-	-
Current year subscription / fee	20 808 770	17 567 891
Amount paid - current year	(20 808 770)	(17 567 891)
Balance at the end of the year	**-**	**-**

VAT

	2019 R	2018 R
VAT receivable	8 370 326	1 740 904

The municipality is on the payment basis for VAT and submit monthly returns. All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

	2019 R	2018 R

52. Additional disclosure in terms of section 125 of the Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Nortje MM	-	1 389	1 389
Mgeza G	-	1 263	1 263
Davids L	-	2 827	2 827
Bene V	885	371	1 256
Sammy CA	-	1 319	1 319
Desha M	-	5 954	5 954
Lawens BL	1 225	340	1 565
Diamond C	219	1 540	1 759
Goniwe S	-	345	345
Mankamani ZA	1 100	1 902	3 002
	3 429	**17 250**	**20 679**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Desha M	-	89	89
Diamond C	506	1 494	2 000
Mankamani ZA	391	1 529	1 920
Mgeza G	106	1 406	1 512
Nortje MM	-	71	71
Sammy CA	1 544	680	2 224
	2 547	**5 269**	**7 816**

Deviation from supply chain management regulations

Paragraph 12(1) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of written/verbal quotations, formal written quotations and a competitive bidding process, depending on the specified threshold values.

Paragraph 36 of the above mentioned gazette also provides that the accounting officer may dispense with the official procurement process in certain circumstances provided that he/she records the reasons for any deviations, reports them to the next meeting of the Council and include as a note to the financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1) as stated above. The reasons for the deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviations from the normal supply chain management regulation. These deviations have also been reported to Council. The reasons for the deviations were mainly due to emergency cases, sole/single suppliers and impracticality in following the official procurement processes.

Incident	2019 R	2018 R
Sole / single supplier	537 180	1 595 050
Emergencies	909 274	1 649 720
Exceptional cases	2 182 252	1 772 589
Other	130 666	1 495 337
	3 759 372	**6 512 696**

53. Related parties

Relationships

Section 57 managers	
Municipal Manager	Msweli, XW
Director of Corporate Services	Mbebe, MWM
Director of Community Services	Twalo, NL
	Zonke, NP
Chief Financial Officer	Mulaudzi, KL
Members of Council	
Mayor	Shweni, ZR
Speaker	Nortje, MM
Executive committee member	Bobo, TE
Executive committee member	Davids, L
Executive committee member	Masawe, SV
Executive committee member	Mgeza, G
MPAC Chairperson	Bene, V
Councillor	Desha, M
Councillor	Diamond, C
Councillor	Featherstonehaugh, MH
Councillor	Goniwe, S
Councillor	Holster, S
Councillor	Lawens, BL
Councillor	Lottering, R
Councillor	Msali, TM
Councillor	Mankamani, ZA
Councillor	Sammy, CA
Councillor	Vorster, HB

Remuneration of councillors and management

Mayoral committee members

2019

Position and name	Councillors' allowance R	Other allowances R	Total R
Mayor - Shweni, ZR	626 780	245 369	872 149
Speaker - Nortje, MM	662 200	44 400	706 600
Executive committee member - Bobo, TE	470 086	195 128	665 214
Executive committee member - Davids, L	346 339	44 400	390 739
Executive committee member - Masawe, SV	262 250	128 489	390 739
Executive committee member - Mgeza, G	346 339	44 400	390 739
MPAC Chairperson - Bene, V	346 339	44 400	390 739
	3 060 333	**746 586**	**3 806 919**

	2019 R	2018 R

53. Related parties (continued)

2018

Position and name	Councillors' allowance R	Other allowances R	Total R
Mayor - Shweni, ZR	604 831	255 748	860 579
Speaker - Nortje, MM	636 731	50 031	686 762
Executive committee member - Bobo, TE	454 024	192 950	646 974
Executive committee member - Davids, L	333 018	47 690	380 708
Executive committee member - Masawe, SV	253 691	127 090	380 781
Executive committee member - Mgeza, G	333 018	47 933	380 951
MPAC Chairperson - Bene, V	323 242	47 557	370 799
	2 938 555	**768 999**	**3 707 554**

Councillors

2019

Position and name	Councillors' allowance R	Other allowances R	Total R
Councillor - Desha, M	261 133	44 400	305 533
Councillor - Diamond, C	261 952	44 400	306 352
Councillor - Featherstonehaugh, MH	198 351	108 001	306 352
Councillor - Goniwe, S	198 351	108 001	306 352
Councillor - Holster, S	261 952	44 400	306 352
Councillor - Lawens, BL	198 351	108 001	306 352
Councillor - Lottering, R	261 952	44 400	306 352
Councillor - Msali, TM	261 952	44 400	306 352
Councillor - Mankamani, ZA	261 952	44 400	306 352
Councillor - Sammy, CA	198 351	108 001	306 352
Councillor - Vorster, HB	198 351	108 001	306 352
	2 562 648	**806 405**	**3 369 053**

2018

Position and name	Councillors' allowance R	Other allowances R	Total R
Councillor - Desha, M	251 699	47 087	298 786
Councillor - Diamond, C	251 877	46 831	298 708
Councillor - Featherstonehaugh, MH	251 877	47 078	298 955
Councillor - Goniwe, S	251 877	46 969	298 846
Councillor - Holster, S	251 877	46 931	298 808
Councillor - Lawens, BL	251 877	47 201	299 078
Councillor - Lottering, R	251 877	47 225	299 102
Councillor - Msali, TM	251 877	46 831	298 708
Councillor - Mankamani, ZA	251 877	46 831	298 708
Councillor - Sammy, CA	250 321	47 170	297 491
Councillor - Vorster, HB	253 432	47 055	300 487
	2 770 468	**517 209**	**3 287 677**

53. Related parties (continued)

Executive management

2019

Position	Name	Salary and acting allowances R	Contributions to UIF, Medical and Pension Funds R	Other allowances R	Total R
Municipal Manager	Msweli, XW	1 019 477	14 445	397 119	1 431 041
Director of Corporate Services	Mbebe, MWM	829 451	11 748	328 505	1 169 704
Director of Community Services	Twalo, NL	728 692	12 221	429 267	1 170 180
Chief Financial Officer	Mulaudzi, KL	873 841	11 764	284 114	1 169 719
Director of Local Economic Development	Zonke, NP	287 212	3 822	95 019	386 053
Director of Local Economic Development	Jojiyasi, L	30 293	538	9 458	40 289
Director of Technical Services	Ahlschlager, AR	827 296	10 758	126 636	964 690
Acting Director of Technical Services	Sipunzi, M	84 036	10 693	12 465	107 194
		4 680 298	**75 989**	**1 682 583**	**6 438 870**

2018

Position	Name	Salary and acting allowances R	Contributions to UIF, Medical and Pension Funds R	Other allowances R	Total R
Municipal Manager (July 2017)	Tantsi, MS	155 909	2 080	41 518	199 507
Acting Municipal Manager (August 2017 to March 2018)	Mulaudzi, KL	996 143	12 725	184 145	1 193 013
Municipal Manager (April 2018 to June 2018)	Msweli, XW	265 864	9 212	117 661	392 737
Director of Local Economic Development	Lojiyasi, L	821 070	12 189	251 722	1 084 981
Director of Corporate Services	Mbebe, MWM	703 189	10 090	283 992	997 271
Acting director of Community Services (August 2017 to April 2018)	Matoto, TE	165 000	7 908	106 987	279 895
Director of Community Services (May 2018 to June 2018)	Twalo, NL	837 458	69 739	76 404	983 601
Chief Financial Officer (July 2017 to August 2017 & May 2018 to June 2018)	Mulaudzi, KL	274 051	3 923	92 267	370 241
Acting Chief Financial Officer (September 2017 to March 2018)	De Jager, F	542 549	59 815	33 096	635 460
Director of Technical Services	Ahlschlager, AR	916 963	12 353	155 829	1 085 145
		5 678 196	**200 034**	**1 343 621**	**7 221 851**

Notes to the Annual Financial Statements

	2019 R	2018 R

54. Distribution losses

Electricity losses (units)		
Electricity units (kWh) purchased from Eskom	55 214 730	69 656 876
Electricity units (kWh) sold to consumers	(68 658 083)	(61 370 783)
	(13 443 353)	**8 286 093**

Electricity losses for the financial year amounted to 19.58% (2018: 11.90%) of the electricity consumed in the area. The Rand value of these electricity losses for the current financial year is R 13 751 205 (2018: R 7 933 106).

These losses are attributable to electricity line losses within the electricity network infrastructure due to faulty meters and theft.

55. Prior period errors

During the current financial year the municipality identified errors and reclassifications relating to the previous financial years.

The correction of the errors results in adjustments as follows:

Statement of financial position	
Increase / decrease in receivables from exchange transactions	1
Increase / decrease in payables from exchange transactions	3 845 166
Increase / decrease in opening retained earnings	(5 747 084)
Increase in VAT receivable	838 032
Increase / decrease in property, plant and equipment	681 735

Current assets

Receivables from exchange transactions

	2018 restated	Previously reported	Change
Finance income	12 665 835	12 960 345	(294 510)
Property rates	40 293 224	40 299 750	(6 526)
Service charges	108 897 902	110 015 607	(1 117 705)
Rental of facilities and equipment	2 074 914	2 289 988	(215 074)
Impairment losses	2 151 025	2 432 503	(281 478)
VAT receivable	1 740 904	902 872	838 032
Receivables from non-exchange transactions	2 065 617	2 060 682	4 935
Consumer deposits	16 872 038	20 052 342	(3 180 304)
Accumulated surplus	1 171 444 979	1 177 192 063	(5 747 084)
	1 358 206 438	**1 368 206 152**	**(9 999 714)**

Current liabilities

Payables from exchange transactions

During the current year it was discovered that Chris Hani District Municipality has never invoiced the municipality for water/sewerage in the past. The amount due for periods before 30 June 2017, as well as at 30 June 2018 are as follows:

	2018 restated	Previously reported	Change
Trade payables (included in payables from exchange transactions)	100 323 065	96 477 899	3 845 166
VAT receivable	1 740 904	902 872	838 032
Accumulated surplus	1 171 444 979	1 177 192 063	(5 747 084)
Finance cost	14 560 692	14 403 863	156 829

Notes to the Annual Financial Statements

		2019 R	2018 R

55. Prior period errors (continued)

General expenses	45 268 718	43 275 646	1 993 072
	1 333 338 358	**1 332 252 343**	**1 086 015**

Commitments - operating leases

During the current financial year it was noted that 2 copier machines, which lease terms commenced on 1 March 2018, were not included on the lease schedule of the prior year.

The effect on the prior year disclosure is as follows:

	2018 restated	Previously reported	Change
1 year	609 732	599 834	9 898
2 - 5 years	1 411 850	1 363 259	48 591
	2 021 582	**1 963 093**	**58 489**

Non-current assets

Property, plant and equipment

During the current year's asset verification additional assets were identified that were not on the fixed asset register in the prior year.

The effect on the prior year balances are as follows:

Cost	2018 restated	Previously reported	Change
Land	41 276 174	41 276 174	-
Plant and machinery	2 659 050	2 073 583	585 467
Furniture and fittings	5 229 009	5 096 264	132 745
Motor vehicles	23 026 720	22 471 113	555 607
Office equipment	562 756	548 174	14 582
Computer equipment	4 343 618	4 251 732	91 886
Infrastructure	1 105 756 365	1 105 756 365	-
Landfill sites	26 198 099	26 198 099	-
	1 209 051 791	**1 207 671 504**	**1 380 287**

55. Prior period errors (continued)

Accumulated depreciation	**2018 restated**	**Previously reported**	**Change**
Plant and machinery	(1 278 906)	(999 499)	(279 407)
Furniture and fittings	(2 806 793)	(2 733 399)	(73 394)
Motor vehicles	(12 567 713)	(12 289 658)	(278 055)
Office equipment	(265 549)	(254 980)	(10 569)
Computer equipment	(2 335 237)	(2 278 110)	(57 127)
Infrastructure	(141 487 926)	(141 487 926)	-
Landfill sites	(26 198 099)	(26 198 099)	-
	(186 940 223)	**(186 241 671)**	**(698 552)**

Net book value	**2018 restated**	**Previously reported**	**Change**
Land	41 276 174	41 276 174	-
Plant and machinery	1 380 144	1 074 084	306 060
Furniture and fittings	2 422 216	2 362 865	59 351
Motor vehicles	10 459 007	10 181 455	277 552
Office equipment	297 207	293 194	4 013
Computer equipment	2 008 381	1 973 622	34 759
Infrastructure	964 268 439	964 268 439	-
Landfill sites	-	-	-
	1 022 111 568	**1 021 429 833**	**681 735**

Revenue from exchange transactions

Rental of facilities and equipment

	2018 restated	**Previously reported**	**Change**
Rental of facilities and equipment	2 074 914	2 289 988	(215 074)
Paybles from exchange transactions	126 815 187	122 746 407	4 068 780
	128 890 101	**125 036 395**	**3 853 706**